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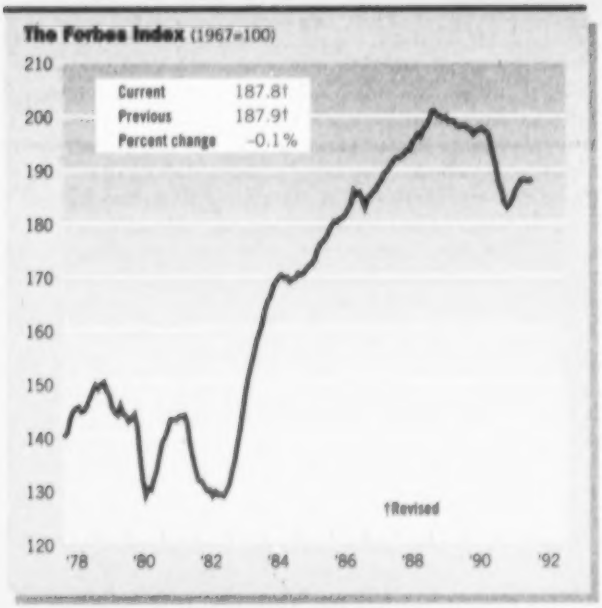
THE FORBES INDEX

BY TIMOTHY DODMAN



The economy seems to be riding a thin line between a recession and a recovery. The retail and housing components have been slowly gaining strength but are somewhat offset by declining industrial production and weakness in consumer credit. The mixed February employment report is another example of conflicting signals: 164,000 new jobs were created, but the unemployment rate rose slightly, to 7.3%. This increase is partially attributed to an expanding labor force. The Forbes Index finished January with a 0.1% decline.

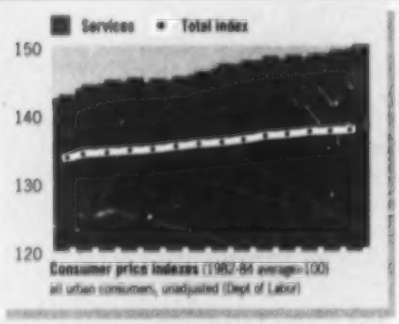
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.5%
Auto sales year to date vs 1991[1]	Ward's Automotive	1.6%
Index of leading indicators Jan vs Dec	Dept of Commerce	0.9%
Trade balance 12 months ended Dec 1991	Dept of Commerce	-$66 bil
All-commodity producer price index Jan vs Dec[2]	Dept of Labor	-0.3%
GDP 4th quarter vs 3rd—annualized growth	Dept of Commerce	0.8%
M2 (3-month change)—annualized growth[3]	Federal Reserve	2.2%

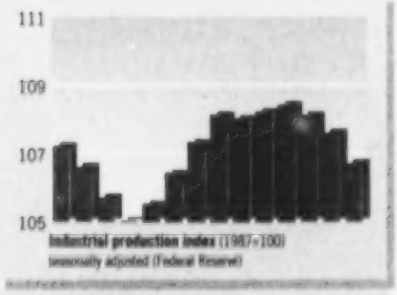
[1] U.S.-based manufacturers, excludes imports, as of 2/29/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

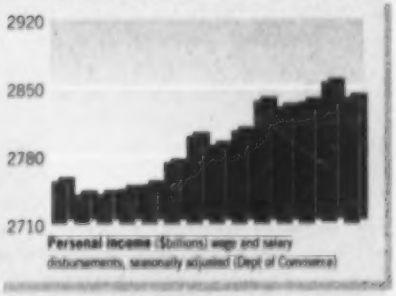
Index components

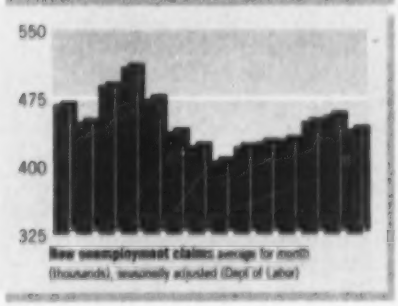
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

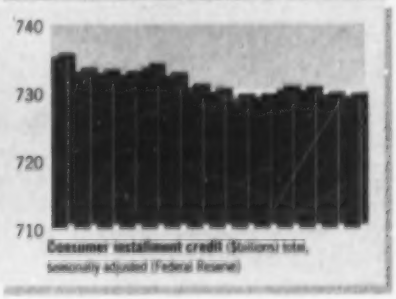
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.











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As the U.S. did more than a decade ago, Germany in 1992 is facing sharply rising costs and a significant decline in international competitiveness.

The German disease

By Peter Fuhrman

ECONOMIC GROWTH has stalled, inflation is high and threatens to boil higher, productivity and export growth are stagnating. Believe it or not, this is Germany.

Germans blame the high cost of repairing the damage done by socialism in East Germany. The bill to date is over $100 billion in 18 months, with hundreds of billions still to go. But there is more to the story.

The fact is that western Germany, too, is infected with the socialist virus. "Big government, high taxes and regulations harmful to business are causing a serious cost squeeze and an increasing loss in competitiveness," complains Tyll Necker, president of one of Germany's best middle-size exporters, machinery maker Hako-Werke GmbH. "We are closer to the brink than most people realize."

Corporate taxes soak German businesses each year of 66% of their retained earnings. Thanks to this and the lack of a broad equity capital market, German companies are now the most thinly capitalized in the industrial world, with average equity equaling just 30% of total capital. In the U.S., by comparison, it's 65%. For all but the largest German firms, this heavy debt load makes it more and more difficult to afford cost-cutting capital investment. Electricity and telephone costs are roughly double U.S. rates. Ditto domestic airfares. The government sets the prices and, in the case of the phone company, owns the service and blocks any possibility of competition.

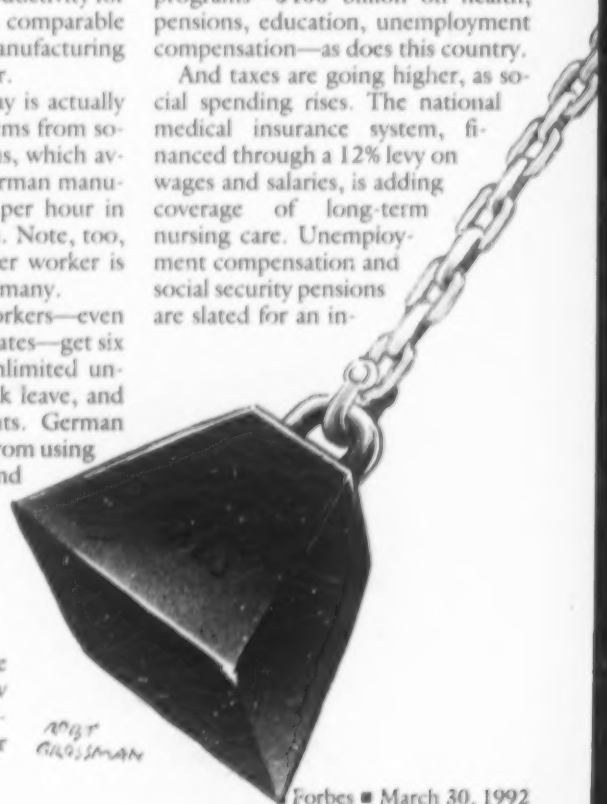
For decades, German competitiveness and ingenuity compensated for all this statism, but now the lines are crossing. The average German manufacturing worker now costs $25 an hour, and new national wage agreements will raise rates this year by around 7%. Wage increases have exceeded the growth in productivity for six years in a row. The comparable U.S. and Japanese manufacturing workers cost $15 an hour.

German take-home pay is actually lower. The difference stems from social security contributions, which average $11 an hour in German manufacturing, versus $3.60 per hour in both the U.S. and Japan. Note, too, that American output per worker is much higher than in Germany.

By law all German workers—even recent high school graduates—get six weeks' paid vacation, unlimited unemployment pay and sick leave, and generous layoff payments. German laws prevent companies from using night shifts or weekend work to spread overhead costs more efficiently. German factories now operate an average of just 53 hours a week, about two-thirds the utilization level in the U.S. That gap will grow wider in 1995 when Germany moves to a 35-hour workweek.

The biggest villain is the high and rising cost of German social democracy—with emphasis on the first word. Germany's central and regional governments together take 50% of the country's gross national product. With a population one-third of the U.S.', Germany spends more than twice as much per head on social programs—$400 billion on health, pensions, education, unemployment compensation—as does this country.

And taxes are going higher, as social spending rises. The national medical insurance system, financed through a 12% levy on wages and salaries, is adding coverage of long-term nursing care. Unemployment compensation and social security pensions are slated for an in-



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THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

These are fat times on Wall Street. Initial public offerings are coming out at a near record pace, and trading activity is increasing. Average daily trading volume on the New York Stock Exchange, 179 million shares last year, shot up to 233 million during the first two months of the year.

Perrin Long, who follows the securities industry for First of Michigan Corp. in Detroit, says that owning brokerage stocks beats owning stock indexes like the S&P 500. "Brokerage stocks are, in effect, a proxy for the market," he says. "They do very well in a high-volume, low-interest-rate environment like today's."

Long quickly adds that brokerage stocks are quite cyclical. They do better than the market in good times but worse than other stocks when the market sinks. But if he's right, the best bet may be a portfolio mixing brokerage stocks (for upside gains) and cash (for when the market sells off).

Special focus

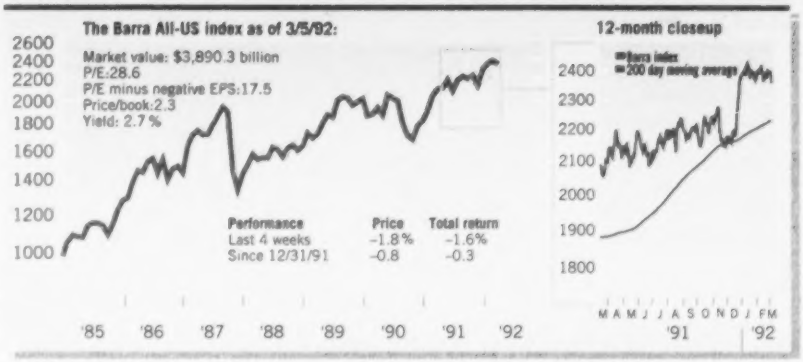
Who would pay a premium over asset value to get into a closed-end fund? It's a question discussed on page 144. Some of these funds have perceived scarcity value, since it's hard to invest in Turkey or Singapore. Bergstrom Capital's superb performance record (FORBES, *Jan. 6*) may explain its premium.

Expensive closed-end funds

Fund	Premium
Turkish Investment Fund	26.8%
Indonesia Fund	26.6
Taiwan Fund	26.3
Bergstrom Capital	21.4
Z-Seven	21.2
Van Kampen Merritt Intl	18.3
Asia Pacific	16.9
ROC Taiwan Fund	16.7
Korea Fund	16.0
Templeton Emerging Markets	14.9

Source: Morningstar

The overall market



Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	-1.6%	12.1%	-3.4%
Sharpe/Barra Growth index[1]	-1.4	14.4	-5.9
Sharpe/Barra Value index[2]	-1.9	8.1	-2.4
Dow Jones industrials	-1.2	9.4	-1.5
S&P 500	-1.8	8.1	-3.4
NYSE	-1.6	9.5	-3.0
Nasdaq	-1.6	30.7	-3.6
Amex	-0.6	15.5	-2.1
EAFE[3]	-1.4	-11.1	-24.9
CRB index[4,5]	-0.4	-4.7	-22.7
Gold[5]	-0.6	-4.4	-30.1
Yen[5]	2.6	-2.8	-19.6
Oil[5]	0.0	-4.4	-54.9

The best and worst performing stocks[6]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
Grace Energy	17 1/8	43%	$0.75	American Dental Laser	6 5/8	-43%	$0.80
DWG	8 7/8	34	NA	Esterline Technologies	11	-33	1.50
Alpine Group	13 5/8	33	NA	Zeos Intl	15 3/4	-28	1.57
Herbalife Intl	8 1/2	31	NA	Retix	12 3/4	-25	0.53
Cerner	33 1/2	29	1.41	Komag	15	-25	1.44

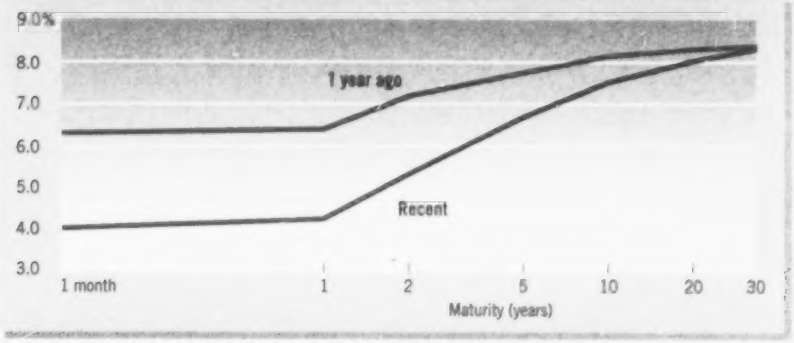
The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Media	3.1%	8.4%	Photographic, optical	-7.9%	-11.8%
Beverages	1.2	5.1	Motor vehicles	-6.5	20.8
Drugs	1.2	-7.0	Oil refining, distribution	-6.5	-4.8
Tobacco	0.9	0.0	Coal & uranium	-5.6	-18.4
Real Estate	0.9	3.2	Electronics	-4.5	5.1

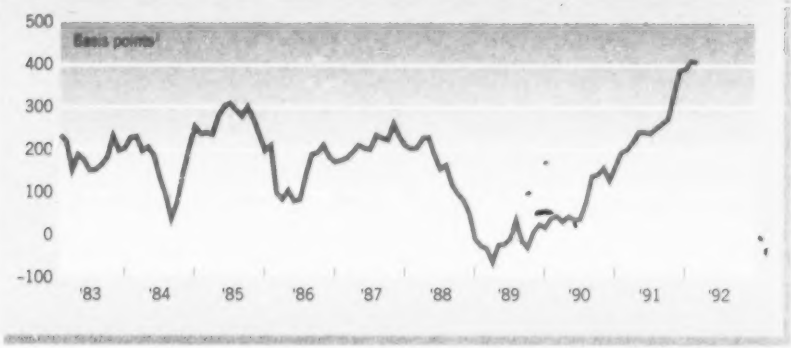
Note: Data for period ending 3/5/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

BY ERIC S. HARDY

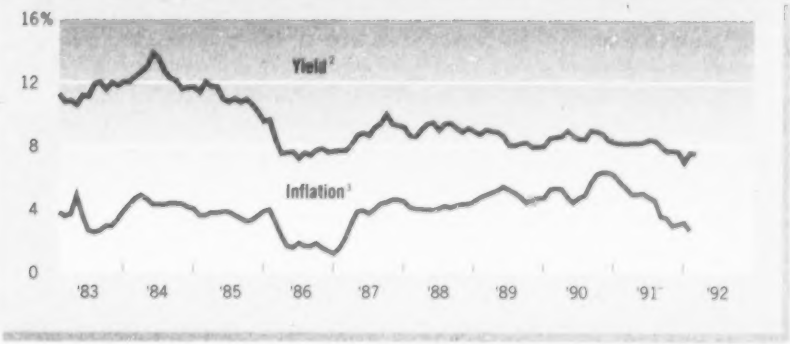
Yield curve



30-year rate minus 1-year rate



Yield vs. inflation



Spread over Treasurys

Security	Basis points[1]
AA corporates	75
AAA industrials	60
Ginnie Maes	81
Junk corporates[4]	538
Municipals[5]	-184

Total returns

Security	1 year[6]	3 years[6,7]
AAA corporates	13.9%	12.4%
Ginnie Maes	12.9	13.8
Junk corporates[4]	37.3	12.0
Municipals[5]	10.0	9.8
Treasury bonds	12.1	12.1

Note: Except where footnoted, all information provided by Barra, Inc., Berkeley, Calif. [1]A basis point is equal to one-hundredth of a percentage point. [2]Yield on ten-year Treasurys. [3]The trailing 12-month increase in the Consumer Price Index, through 1/31/92. [4]Source: First Boston. [5]Source: Lehman Brothers. [6]Data through 2/28/92. [7]Annualized

The unusually steep yield curve presents a tempting speculation to bond bulls. The 30-year Treasury now yields 8% to maturity. If the yield declines by 1 percentage point over the next year, total return to today's buyers would be 22%.

What's the case for declining long-term interest rates? One argument is that it is simply abnormal for the long bond to yield so much more than the shortest-term Treasury paper. Investors are being rewarded with 4 percentage points of additional yield to purchase a 30-year bond instead of a 1-year bill. The last time the gap was anywhere near this wide was back in mid-1985, when the spread was only 3 percentage points.

Another reason to buy long Treasurys is that the powers in Washington are very unhappy about high long-term interest rates, which have an impact on mortgages and other politically sensitive rates. The Administration can't do much about long-term rates directly, but it can try to influence them. It might, for example, direct the Treasury to issue more short-term bills and fewer long bonds. Or the Federal Reserve banks could buy up long Treasurys. Either way, the supply-demand balance can be altered in such a way that prices might rise and yields fall.

Another argument offered by the bulls is that inflation is down to 2.6%. If it stays convincingly low, then investors will be more willing to commit their money for 30 years.

Interest rates could head upward instead, of course, sending prices plunging. First Boston Chief Economist Neal Soss notes that long bond yields ranged between 7.5% and 8.5% in 1991, when there was a war and a transition from economic growth to recession. Citing the election, pending tax changes and mixed perceptions of the health of the economy, Soss warns that rates could be even more volatile this year.

Buyers, in Soss' view, must be prepared to withstand substantial swings in the value of their bonds. He expects the prevailing 8% yield to be about the middle of this year's range.